

Report of Independent Auditor

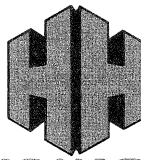
SUSSEX ACADEMY OF ARTS AND SCIENCES
(A Component Unit of the State of Delaware)
Georgetown, Delaware

Years Ended June 30, 2006 and 2005

SUSSEX ACADEMY OF ARTS AND SCIENCES
(A Component Unit of the State of Delaware)

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HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
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Report of Independent Auditor

To the School Board Members
Sussex Academy of Arts and Sciences
Georgetown, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences, Georgetown, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences as of June 30, 2006 and 2005, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and page 24, respectively, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Sussex Academy of Arts and Sciences' basic financial statements. The additional information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 25 and 26 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.


Certified Public Accountants

September 15, 2006
Wilmington, Delaware

**Management's Discussion
and Analysis Section**

SUSSEX ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED
Year Ended June 30, 2006

Our discussion and analysis of the School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2006. Please read it in conjunction with the Report of Independent Auditor on pages 1 and 2, and the School's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The net assets of the School increased by \$189,843 or 37.96%. Program revenues accounted for \$173,992 or 6.36% of total revenues, and the general revenues accounted for \$2.6 million or 93.64% of total revenues. Also, the general fund reported a positive fund balance of \$620,149.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements begins on page 11 and provides detailed information about the most significant funds-not the School as a whole. Certain funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS (continued)

Fiduciary Funds

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can only be used for the student activities and other related organizations. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School's other financial statements since these assets cannot be utilized by the School to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$689,901 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (91.01%) and capital assets net of depreciation (8.99%). The School uses capital assets to provide services; consequently, capital assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these debt obligations.

A summarized comparative analysis of fiscal year 2006 to 2005 follows:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets		
Current and other assets	\$ 805,577	\$ 575,423
Capital assets, net of depreciation	79,559	127,329
Total assets	<u>885,136</u>	<u>702,752</u>
Liabilities		
Current liabilities	185,865	178,585
Long-term liabilities	9,370	24,109
Total liabilities	<u>195,235</u>	<u>202,694</u>
Net assets		
Invested in capital assets, net of related debt	78,608	101,168
Unrestricted	<u>611,293</u>	<u>398,890</u>
Total net assets	<u>\$ 689,901</u>	<u>\$ 500,058</u>

The School may use the balance of unrestricted net assets of \$611,293, reflected above in Table 1, to meet future operating activities.

The School is pleased to report positive balances in net assets, both for the government as a whole, and as well as its separate governmental type activities.

The following (Table 2) reflects the School's revenues by funding source and the expenses by functions, which indicate how the funding received was used.

SUSSEX ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED
Year Ended June 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Table 2
Change in Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
Charges to school districts	\$ 487,902	\$ 471,264
State aid not restricted to specific purposes	2,043,588	1,923,096
Earnings on cash and equivalents	28,418	10,397
Gain on sale of capital assets	3,732	...
Total general revenues	2,563,640	2,404,757
Program revenues:		
Federal aid	120,422	136,415
School food services	39,146	39,842
Contributions	14,424	39,947
Total revenues	2,737,632	2,620,961
Expenses		
Instructional services	2,038,987	1,870,407
Supporting services:		
Operation and maintenance of facilities	233,960	227,208
Transportation	197,081	190,583
School food services	47,911	40,464
Depreciation-unallocated	29,566	36,737
Interest on capital lease obligations	284	1,762
Total expenses	2,547,789	2,367,161
Change in net assets	\$ 189,843	\$ 253,800

Governmental Activities

Net assets of the School's governmental activities increased by \$189,843 and unrestricted net assets reflect a positive balance of \$611,293. The increase in net assets for the two consecutive years is primarily the result of the School's increase in revenues while at the same time controlling its expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues which include charges to School Districts, State entitlements, and cash and investment earnings must support the net cost of the School's programs.

	<u>Services</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
Governmental activities				
Instructional services	\$2,038,987	\$1,904,141	\$1,870,407	\$1,694,045
Supporting services:				
Operation and maintenance of facilities	233,960	233,960	227,208	227,208
Transportation	197,081	197,081	190,583	190,583
School food services	47,911	8,765	40,464	622
Depreciation-unallocated	29,566	29,566	36,737	36,737
Interest on capital lease obligations	284	284	1,762	1,762
Total expenses	\$2,547,789	\$2,373,797	\$2,367,161	\$2,150,957

The reliance on general revenues to support governmental activities is indicated by the net cost services' columns which reflect the need for general support.

SUSSEX ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED
Year Ended June 30, 2006

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet on page 11) reported a combined fund balance of \$620,149, which is more than last year's total of \$405,016. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006.

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
General fund	<u>\$ 620,149</u>	<u>\$ 405,016</u>	<u>\$ 215,133</u>

General Fund

The School's general fund increase in fund balance is due to increased funding at all levels, with the exception of federal aid, and increased efforts by the School to tap into private sources. The earnings on cash and equivalents increased as a result of increased reserves and increases in interest rates. The tables that follow assist in illustrating the financial activities.

	<u>Amounts</u>		<u>Percentage (%) Change</u>
	<u>2006</u>	<u>2005</u>	
Revenues			
Charges to school districts	\$ 487,902	\$ 471,264	3.53
State aid	2,043,588	1,923,096	6.27
Federal aid	120,422	136,415	(11.72)
Earnings on cash and equivalents	28,418	10,397	173.33
School food services	39,146	39,842	(1.75)
Contributions-private sources	14,424	39,947	(63.89)
Total revenues	<u>\$2,733,900</u>	<u>\$2,620,961</u>	<u>4.31</u>

The largest portions of general fund expenditures are for personnel costs, which include salaries and related employment costs. The School is a service oriented organization and as such labor intensive.

	<u>Amounts</u>		<u>Percentage (%) Change</u>
	<u>2006</u>	<u>2005</u>	
Expenditures by object			
Current:			
Instructional services	\$2,031,575	\$1,859,834	9.23
Supporting services:			
Operation and maintenance of facilities	233,960	227,208	2.97
Transportation	197,081	190,583	3.41
School food services	47,911	40,464	18.40
Capital outlay	6,282	8,954	(29.84)
Debt service	1,958	9,481	(79.35)
Total expenditures by object	<u>\$2,518,767</u>	<u>\$2,336,524</u>	<u>7.80</u>

Revenues exceeded expenditures for the current year resulting in an increase to the School's fund balance. Even though individual expenditure line items show various percentage changes, which is a result of changing student demographics and School needs. Instructional services and food service costs increased due to cost of providing such services. The decreases in capital outlays and debt service costs are a direct result of replacing capital leasing arrangements with operating leasing arrangements.

SUSSEX ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED
Year Ended June 30, 2006

GENERAL FUND BUDGET INFORMATION

The most significant budgeted fund is the general fund which is presented on the modified accrual basis of accounting. The School did not amend the budget for fiscal year 2006.

CAPITAL ASSETS

The School has \$79,559 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. During the current year, the School had \$1,600 of acquisitions for governmental activities and depreciation expense of \$29,566. Also, during fiscal 2006 the School converted its capital leasing arrangements to operating ones, resulting in a gain of \$3,732. Detailed information regarding the capital assets activity is included in note 3 of the financial statements.

DEBT OBLIGATIONS

At June 30, 2006, the School had \$951 in capital leasing obligations. The School paid \$1,674 in principal during the current year and the remaining capital leases were converted to operating ones. Detailed information regarding debt obligation activity is included in notes 5 and 6 of the financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Now in its seventh year of operation, the School's student population and revenue is stable. Since the School has no direct taxing authority, it is reliant upon the state and local revenues that are passed through to the School. In order to maintain a school that thrives on innovation and quality, the School will continue to seek other sources of revenue.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the funding received. If you have questions about this report or need additional financial information, contact the School's Finance Office at (302) 856-3636.

Basic Financial Statements Section

SUSSEX ACADEMY OF ARTS AND SCIENCES
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 805,577	\$ 575,423
Total current assets	<u>805,577</u>	<u>575,423</u>
NONCURRENT ASSETS		
Capital assets, net of depreciation	<u>79,559</u>	<u>127,329</u>
TOTAL ASSETS	<u>885,136</u>	<u>702,752</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,202	...
Accrued salaries and related costs	181,226	170,407
Capital lease obligations, due within one year	<u>437</u>	<u>8,178</u>
Total current liabilities	<u>185,865</u>	<u>178,585</u>
NONCURRENT LIABILITIES		
Capital lease obligations		
due or payable after one year	514	17,983
Compensated absences liability	<u>8,856</u>	<u>6,126</u>
Total noncurrent liabilities	<u>9,370</u>	<u>24,109</u>
TOTAL LIABILITIES	<u>195,235</u>	<u>202,694</u>
NET ASSETS		
Invested in capital assets, net of related debt	78,608	101,168
Unrestricted	<u>611,293</u>	<u>398,890</u>
TOTAL NET ASSETS	<u>\$ 689,901</u>	<u>\$ 500,058</u>

The accompanying notes are an integral
part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 2,038,987	\$...	\$ 120,422	\$ 14,424	\$ (1,904,141)
Supporting services:					
Operation and maintenance of facilities	233,960	...	...	...	(233,960)
Transportation	197,081	...	...	...	(197,081)
School food services	47,911	39,146	...	...	(8,765)
Depreciation-unallocated	29,566	...	...	...	(29,566)
Interest on capital lease obligations	<u>284</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(284)</u>
Total Charter School	\$ 2,547,789	\$ 39,146	\$ 120,422	\$ 14,424	(2,373,797)
GENERAL REVENUES					
Charges to school districts					487,902
State aid not restricted to specific purposes					2,043,588
Earnings on cash and equivalents					28,418
Gain from sale of capital assets					<u>3,732</u>
Total general revenues					<u>2,563,640</u>
CHANGE IN NET ASSETS					189,843
NET ASSETS					
Beginning of year					<u>500,058</u>
End of year					<u>\$ 689,901</u>

The accompanying notes are an integral part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 1,870,407	\$...	\$ 136,415	\$ 39,947	\$ (1,694,045)
Supporting services:					
Operation and maintenance of facilities	227,208	...	...	...	(227,208)
Transportation	190,583	...	...	...	(190,583)
School food services	40,464	39,842	...	...	(622)
Depreciation-unallocated	36,737	...	...	...	(36,737)
Interest on capital lease obligations	<u>1,762</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(1,762)</u>
Total Charter School	<u>\$ 2,367,161</u>	<u>\$ 39,842</u>	<u>\$ 136,415</u>	<u>\$ 39,947</u>	<u>(2,150,957)</u>
GENERAL REVENUES					
Charges to school districts					471,264
State aid not restricted to specific purposes					1,923,096
Earnings on cash and equivalents					<u>10,397</u>
Total general revenues					<u>2,404,757</u>
CHANGE IN NET ASSETS					253,800
NET ASSETS					
Beginning of year					<u>246,258</u>
End of year					<u>\$ 500,058</u>

The accompanying notes are an integral part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES
BALANCE SHEETS-GOVERNMENTAL FUNDS
June 30, 2006 and 2005

	<u>Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and equivalents	\$ <u>805,577</u>	\$ <u>575,423</u>
TOTAL ASSETS	<u>\$ 805,577</u>	<u>\$ 575,423</u>
LIABILITIES		
Accounts payable	\$ 4,202	\$...
Accrued salaries and related costs	<u>181,226</u>	<u>170,407</u>
Total liabilities	<u>185,428</u>	<u>170,407</u>
FUND BALANCES		
Reserved for encumbrances	166	166
Unreserved	<u>619,983</u>	<u>404,850</u>
Total fund balances	<u>620,149</u>	<u>405,016</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 805,577</u>	<u>\$ 575,423</u>

The accompanying notes are an integral
part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES

RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS

TO THE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

		<u>Governmental Funds</u>	
		<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the statement of net assets are different because:			
Total fund balances-governmental funds		\$ 620,149	\$ 405,016
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$245,351 for 2006 and \$282,083 for 2005, and the related accumulated depreciation is \$165,792 for 2006 and \$154,754 for 2005.		79,559	127,329
Capital lease obligations are not due and payable in the current period and therefore are not reported in the funds.			
	<u>2006</u>	<u>2005</u>	
Due within one year	\$ (437)	\$ (8,178)	
Due in more than one year	<u>(514)</u>	<u>(17,983)</u>	(951) (26,161)
Compensated absences are not due and payable for the period reported and therefore are not reflected in the funds.		<u>(8,856)</u>	<u>(6,126)</u>
Total net assets-governmental activities		\$ <u>689,901</u>	\$ <u>500,058</u>

The accompanying notes are an integral part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS
 Years Ended June 30, 2006 and 2005

	<u>Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>
REVENUES		
Charges to school districts	\$ 487,902	\$ 471,264
State aid	2,043,588	1,923,096
Federal aid	120,422	136,415
Earnings on cash and equivalents	28,418	10,397
School food services	39,146	39,842
Contributions	14,424	39,947
Total revenues	<u>2,733,900</u>	<u>2,620,961</u>
EXPENDITURES		
Current:		
Instructional services	2,031,575	1,859,834
Supporting services:		
Operation and maintenance of facilities	233,960	227,208
Transportation	197,081	190,583
School food services	47,911	40,464
Capital outlay	6,282	8,954
Debt service:		
Principal retirement	1,674	7,719
Interest and fiscal charges	284	1,762
Total expenditures	<u>2,518,767</u>	<u>2,336,524</u>
NET CHANGE IN FUND BALANCES	215,133	284,437
FUND BALANCES		
Beginning of year	<u>405,016</u>	<u>120,579</u>
End of year	<u>\$ 620,149</u>	<u>\$ 405,016</u>

The accompanying notes are an integral
 part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

Years Ended June 30, 2006 and 2005

	<u>Governmental Funds</u>	
	<u>2006</u>	<u>2005</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ 215,133	\$ 284,437
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized and the cost is allocated over the estimated useful lives of the capital assets and reported as depreciation expense. This is the amount by which depreciation either exceeded or was less than capital outlay for the periods reported.

	<u>2006</u>	<u>2005</u>		
Capital Outlay	\$ 1,600	\$...		
Depreciation Expense	<u>(29,566)</u>	<u>(36,737)</u>	(27,966)	(36,737)

Capital assets acquired by capital leasing arrangements are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.

1,674 7,719

Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in government funds.

	<u>2006</u>	<u>2005</u>		
Capital assets:				
Gain from sale	\$ <u>3,732</u>	\$...	3,732	...

In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased by \$2,730 for 2006 and by \$1,619 for 2005.

(2,730) (1,619)

Change in net assets-governmental activities	\$ <u>189,843</u>	\$ <u>253,800</u>
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The accompanying notes are an integral part of the basic financial statements

SUSSEX ACADEMY OF ARTS AND SCIENCES
STATEMENTS OF FIDUCIARY NET ASSETS-AGENCY FUND
June 30, 2006 and 2005

	<u>Student Activities Fund</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and equivalents	\$ <u>44,057</u>	\$ <u>39,186</u>
LIABILITIES		
Due to student groups	\$ 17,231	\$ 19,988
Other current liabilities	<u>26,826</u>	<u>19,198</u>
TOTAL LIABILITIES	\$ <u>44,057</u>	\$ <u>39,186</u>

The accompanying notes are an integral
part of the basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sussex Academy of Arts and Sciences (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report the financial information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SUSSEX ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund type:

- The **student activities agency fund** (a fiduciary fund) accounts for assets held on behalf of student groups.

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of basic financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgets

The budget for the general fund is adopted on the modified accrual basis of accounting.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2006 and 2005, the School had no such activity.

Advances between funds, as reported in the fund financial statements, when present are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include leasehold improvements, furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with initial, individual costs of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Leasehold improvements, furniture and equipment of the School are depreciated using the straight-line method over their estimated useful lives ranging between 3 to 10 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental funds only if the amounts have matured, for example, as a result of employee resignations and retirements.

Vacation - Twelve month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid when employees qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days.

Capital Lease Obligations

The government-wide financial statements reflect capital lease obligations as liabilities in the applicable statement of net assets. In the fund financial statements, governmental fund types recognize the principal portion of the payments as expenditures. The lease obligation face amount is reported as other financing sources in the year the capital asset is leased.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

NOTE 2 - CASH AND EQUIVALENTS

At June 30, 2006 and 2005, the School has cash and equivalents of \$805,577 and \$575,423, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

SUSSEX ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND EQUIVALENTS (continued)

The petty cash fund and student activity fund are in the custody of School officials. At June 30, 2006 and 2005, these deposits are held by one financial institution. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$48,333 and \$39,575 held by the financial institution were not in excess of FDIC limits, respectively, and therefore, there is no custodial credit risk for these deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 follows:

Description	June 30, 2006			Ending Balances
	Beginning Balances	Increases	Decreases	
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,289	\$...	\$...	\$ 3,289
Furniture and equipment	278,794	1,600	38,332	242,062
Totals	282,083	1,600	38,332	245,351
Less accumulated depreciation:				
Leasehold improvements	1,124	329	...	1,453
Furniture and equipment	153,630	29,237	18,528	164,339
Totals	154,754	29,566	18,528	165,792
Total capital assets, being depreciated, net	\$ 127,329	\$ (27,966)	\$ 19,804	\$ 79,559

Capital assets activity for the year ended June 30, 2005 follows:

Description	June 30, 2005			Ending Balances
	Beginning Balances	Increases	Decreases	
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,289	\$...	\$...	\$ 3,289
Furniture and equipment	278,794	...	...	278,794
Totals	282,083	...	...	282,083
Less accumulated depreciation:				
Leasehold improvements	795	329	...	1,124
Furniture and equipment	117,222	36,408	...	153,630
Totals	118,017	36,737	...	154,754
Total capital assets, being depreciated, net	\$ 164,066	\$ (36,737)	\$...	\$ 127,329

SUSSEX ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2006 and 2005 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension cost of \$155,759 for 2006 and \$115,930 for 2005 (State share) and \$20,884 for 2006 and \$16,904 for 2005 (local share) is included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
 - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
 - a. 15 years service-age 60
 - b. 30 years service-any age
 - c. 5 years service-age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five consecutive years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

NOTE 5 - LONG-TERM DEBT OBLIGATIONS

The following is a summary of changes in long-term obligations:

Description	Year Ended June 30, 2006				
	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
Governmental activity:					
Capital leases:					
See Note 6 for detail	\$ 26,161	\$...	\$ 25,210	\$ 514	\$ 437
Other long-term debt:					
Compensated absences	<u>6,126</u>	<u>2,730</u>	<u>...</u>	<u>8,856</u>	<u>...</u>
Total long-term debt	<u>\$ 32,287</u>	<u>\$ 2,730</u>	<u>\$ 25,210</u>	<u>\$ 9,370</u>	<u>\$ 437</u>

Compensated absences for governmental activities are generally liquidated by the general fund.

SUSSEX ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LEASING ARRANGEMENTS

The School is involved in the following leasing arrangements:

Operating Leasing Arrangements

The School leases real property from Sussex Academy of Arts and Sciences, Inc. (an unrelated 501(c)(3) nonprofit corporation) on a year-to-year basis. Total rental costs incurred are \$192,000 for 2006 and \$192,000 for 2005.

The School leases certain copier equipment under operating leasing arrangements expiring during fiscal year 2011.

At June 30, 2006, the minimum future rental payments required for the copier equipment under non-cancelable leasing arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

Fiscal Years Ending June 30		Amount
	2007	\$ 9,750
	2008	9,750
	2009	9,750
	2010	9,750
	2011	1,219
Minimum future rental payments required		<u>\$ 40,219</u>

Total rental costs are \$10,230 for 2006 and \$11,503 for 2005.

Capital Leasing Arrangements

The summary of changes in the capital lease obligations follows:

Description	Year Ended June 30, 2006			
	Beginning Balances	Additions	Deletions	Ending Balances
Capital lease obligations:				
Copier Lease #1	\$ 12,399	\$...	\$ 12,399	\$...
Copier Lease #2	12,399	...	12,399	...
Copier/Scanner	1,363	...	412	951
Totals	<u>\$ 26,161</u>	<u>\$...</u>	<u>\$ 25,210</u>	<u>\$ 951</u>

The School leased certain copier equipment under capital leasing arrangements with varying dates through the year 2008. Certain leases were terminated early. The assets and liability under these leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the capital assets. The capital assets are depreciated over their estimated useful lives using the straight-line method of depreciation. At June 30, assets held under capital leasing arrangements are \$76,390 for 2006 and \$114,722 for 2005, with the related accumulated depreciation of \$75,697 for 2006 and \$93,169 for 2005.

SUSSEX ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LEASING ARRANGEMENTS (continued)

Capital Leasing Arrangements (continued)

At June 30, 2006, the future minimum lease payments under capital leasing arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

<u>Fiscal Years Ending June 30</u>	<u>Amount</u>
2007	\$ 480
2008	532
Total future minimum lease payments required	1,012
Less: Amount representing interest portion	61
Present value of minimum lease payments	951
Less: Capital lease obligation due within one year	437
Capital lease obligation, noncurrent portion	<u>\$ 514</u>

Total interest expense incurred, all of which was charged to operations, was \$284 for 2006 and \$1,762 for 2005.

The interest rate on capitalized leasing arrangements is 5.957% and is imputed based on the lower of the School's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives federal assistance in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

Litigation

A complaint in the amount of \$10,715 plus interest was filed against the School. On September 21, 2006, the School paid \$8,500 to settle the complaint.

Required Supplemental Information (RSI) Section

SUSSEX ACADEMY OF ARTS AND SCIENCES**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND**
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Charges to school districts	\$ 489,118	\$ 489,118	\$ 487,902	\$ (1,216)
State aid	1,855,621	1,855,621	2,043,588	187,967
Federal aid	75,593	75,593	120,422	44,829
Earnings on cash and equivalents	...	...	28,418	28,418
Other local sources	...	...	39,146	39,146
Contributions	...	...	14,424	14,424
Total revenues	2,420,332	2,420,332	2,733,900	313,568
EXPENDITURES				
Current:				
Salaries	1,183,201	1,183,201	1,220,322	(37,121)
Employment costs	482,350	482,350	475,228	7,122
Travel	15,000	15,000	18,551	(3,551)
Contracted services	150,000	150,000	160,954	(10,954)
Communications	15,000	15,000	8,450	6,550
Public utility services	60,000	60,000	31,590	28,410
Insurance	26,000	26,000	7,220	18,780
Transportation-buses	223,541	223,541	197,081	26,460
Land/Building/Facilities	210,000	210,000	190,717	19,283
Repairs and maintenance	15,000	15,000	11,653	3,347
Other contractual services	15,000	15,000	7,773	7,227
Supplies and materials	100,000	100,000	39,428	60,572
Operating supplies	15,000	15,000	110,965	(95,965)
Computer/Word Processing/Software	40,000	40,000	30,595	9,405
Capital outlay:				
Equipment	19,000	19,000	6,282	12,718
Debt service:				
Principal retirement	...	...	1,674	(1,674)
Interest and fiscal charges	...	...	284	(284)
Reserves	210,000	210,000	...	210,000
Contingency	81,240	81,240	...	81,240
Total expenditures	2,860,332	2,860,332	2,518,767	341,565
NET CHANGE IN FUND BALANCES	(440,000)	(440,000)	215,133	655,133
FUND BALANCES				
Beginning of year	440,000	440,000	405,016	(34,984)
End of year	\$...	\$...	\$ 620,149	\$ 620,149

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. Budgets for the governmental funds are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2006.

See Accompanying Report of Independent Auditor

Additional Information Section

SUSSEX ACADEMY OF ARTS AND SCIENCES
BALANCE SHEETS-GENERAL FUND
June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
ASSETS								
Cash and equivalents	\$ 17,102	\$ 788,475	\$...	\$ 805,577	\$ 26,966	\$ 548,457	\$...	\$ 575,423
TOTAL ASSETS	<u>\$ 17,102</u>	<u>\$ 788,475</u>	<u>\$...</u>	<u>\$ 805,577</u>	<u>\$ 26,966</u>	<u>\$ 548,457</u>	<u>\$...</u>	<u>\$ 575,423</u>
LIABILITIES								
Accounts payable	\$ 4,202	\$...	\$...	\$ 4,202	\$...	\$...	\$...	\$...
Accrued salaries and related costs	...	181,226	...	181,226	...	170,407	...	170,407
Total liabilities	<u>4,202</u>	<u>181,226</u>	<u>...</u>	<u>185,428</u>	<u>...</u>	<u>170,407</u>	<u>...</u>	<u>170,407</u>
FUND BALANCES								
Reserved for encumbrances	...	166	...	166	...	166	...	166
Unreserved	12,900	607,083	...	619,983	26,966	377,884	...	404,850
Total fund balances	<u>12,900</u>	<u>607,249</u>	<u>...</u>	<u>620,149</u>	<u>26,966</u>	<u>378,050</u>	<u>...</u>	<u>405,016</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,102</u>	<u>\$ 788,475</u>	<u>\$...</u>	<u>\$ 805,577</u>	<u>\$ 26,966</u>	<u>\$ 548,457</u>	<u>\$...</u>	<u>\$ 575,423</u>

See Accompanying Report of Independent Auditor

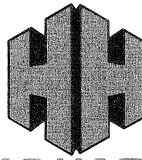
SUSSEX ACADEMY OF ARTS AND SCIENCES

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GENERAL FUND
Years Ended June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
REVENUES								
Charges to school districts	\$...	\$ 487,902	\$...	\$ 487,902	\$...	\$ 471,264	\$...	\$ 471,264
State aid	2,043,588	...	...	2,043,588	1,895,585	27,511	...	1,923,096
Federal aid	...	...	120,422	120,422	...	...	136,415	136,415
Earnings on cash and equivalents	...	28,418	...	28,418	...	10,397	...	10,397
School food services	...	39,146	...	39,146	...	39,842	...	39,842
Contributions	...	14,424	...	14,424	...	39,947	...	39,947
Total revenues	2,043,588	569,890	120,422	2,733,900	1,895,585	588,961	136,415	2,620,961
EXPENDITURES								
Current:								
Salaries	950,174	221,402	48,746	1,220,322	914,080	139,712	31,347	1,085,139
Employment costs	430,072	30,918	14,238	475,228	349,502	49,333	7,499	406,334
Travel	3,485	6,355	8,711	18,551	3,653	6,169	10,320	20,142
Contracted services	120,185	24,059	16,710	160,954	106,839	10,807	32,285	149,931
Communications	7,905	545	...	8,450	6,708	209	...	6,917
Public utility services	28,857	2,733	...	31,590	29,212	798	...	30,010
Insurance	...	7,220	...	7,220	...	18,721	...	18,721
Transportation-buses	196,719	362	...	197,081	190,583	...	...	190,583
Land/Building/Facilities	190,717	...	...	190,717	192,000	...	...	192,000
Repairs and maintenance	10,220	1,433	...	11,653	5,198	...	...	5,198
Other contractual services	3,227	337	4,209	7,773	2,198	...	4,034	6,232
Supplies and materials	18,482	9,109	11,837	39,428	12,227	40,891	7,708	60,826
Operating supplies	76,112	34,853	...	110,965	49,738	32,179	...	81,917
Computer/Word Processing/Software	13,259	1,365	15,971	30,595	...	24,979	39,160	64,139
Capital outlay:								
Equipment	6,282	...	...	6,282	4,892	...	4,062	8,954
Debt service:								
Principal retirement	1,674	...	...	1,674	7,719	...	...	7,719
Interest and fiscal charges	284	...	...	284	1,762	...	...	1,762
Total expenditures	2,057,654	340,691	120,422	2,518,767	1,876,311	323,798	136,415	2,336,524
NET CHANGE IN FUND BALANCES	(14,066)	229,199	...	215,133	19,274	265,163	...	284,437
FUND BALANCES								
Beginning of year	26,966	378,050	...	405,016	7,692	112,887	...	120,579
End of year	\$ 12,900	\$ 607,249	\$...	\$ 620,149	\$ 26,966	\$ 378,050	\$...	\$ 405,016

See Accompanying Report of Independent Auditor

**Reports Required by
Government Auditing Standards**



HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†
Vincent S. Barbone, CPA, CFE*†

American Institute of CPA
Pennsylvania Institute of CPA*
Delaware Society of CPA†
Private Companies Practice Section

**Report of Independent Auditor
on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards**

To the School Board Members
Sussex Academy of Arts and Sciences
Georgetown, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences as of and for the year ended June 30, 2006, which collectively comprise Sussex Academy of Arts and Sciences' basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sussex Academy of Arts and Sciences' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to management of Sussex Academy of Arts and Sciences in a separate letter dated September 15, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sussex Academy of Arts and Sciences' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.


Certified Public Accountants

September 15, 2006
Wilmington, Delaware

SUSSEX ACADEMY OF ARTS AND SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Sussex Academy of Arts and Sciences.
2. No material reportable conditions were identified during the audit of the basic financial statements of Sussex Academy of Arts and Sciences.
3. No instances of noncompliance material to the basic financial statements of Sussex Academy of Arts and Sciences were disclosed during the audit.

FINDINGS-FINANCIAL REPORTING

None.

FINDINGS-COMPLIANCE AND OTHER MATTERS

None.